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SUBJECT: SCENESETTER FOR SECRETARY GUTIERREZ VISIT TO EGYPT  
(MARCH 2006)

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ACCORDINGLY.

11. (SBU) Mr. Secretary, you will be the first Secretary of Commerce to visit Egypt since 1999. The business climate has changed significantly since then, especially with the installation in July 2004 of Ahmed Nazif as Prime Minister and a coterie of reform-minded ministers in economic ministries. Egypt has done more in the last two years to enact major economic reforms, resolve outstanding bilateral trade issues, and liberalize the market than in the preceding 10 years. Nonetheless, Egypt remains a challenging market in which to do business. Red tape and bureaucracy are serious concerns of investors (both foreign and local) operating in Egypt. There are many business impediments in Egypt, including a multiplicity of regulations and regulatory agencies, delays in clearing goods through customs, arbitrary decision-making, high market entry transaction costs, and a generally unresponsive commercial court system.

12. (SBU) One issue your interlocutors are sure to raise is the Free Trade Agreement. Business leaders see USG reluctance to enter into FTA negotiations as lack of support for the bilateral commercial relationship. Government reformers, like Minister Rachid, see the decision not to move forward as a lost opportunity to bolster reformers and to advance far-reaching economic reforms. During your visit you should emphasize the Administration's commitment to work with Egypt on economic and political reform despite the decision not to begin FTA negotiations at this time. Your visit will reassure Egypt of our vital strategic and economic partnership.

13. (SBU) Below are some advocacy and market access issues sure to be raised during your visit.

-- (SBU) Boeing in Egypt: Boeing wants to sell six 737 800s and five 777 200s to EgyptAir, the government-owned airline. These are included as "options" in an existing contract to buy new aircraft. The total value of this procurement is approximately \$1.3 to 1.4 billion with an estimated U.S. export content of \$1.0 to 1.1 billion. Ultimately, President Mubarak will make the final decision on this procurement. In your meeting with the President, you should stress the importance of expanding our bilateral commercial relation to the same level as our security relationship and alert him to Boeing's desire to continue to play an important role in the modernization of EgyptAir's fleet.

-- (SBU) Intellectual Property Rights (IPR): Egypt was retained on the Special 301 Priority Watch List (PWL) in 2005 for ongoing concerns related to pharmaceutical patents and copyright and trademark enforcement. The U.S. copyright industries report the following problems with Egypt's enforcement system: 1) lack of political will by enforcement officials to fight piracy; 2) lack of coordination between enforcement officials and agencies; 3) structural problems in the enforcement system; and 4) non-deterrent penalties in civil and criminal cases. It is imperative that your interlocutors understand the importance of Egypt making good on its TRIPs commitments.

-- (SBU) Pharmaceutical Issues: U.S. pharmaceutical companies are facing serious difficulties related to price controls and lack of data exclusivity. Pharmaceutical prices remain controlled, although Egypt decontrolled prices of other industrial products. The government uses a standard cost-plus formula to determine pharmaceutical prices for new-to-market products. These prices have not been revised to reflect the 45% devaluation of the Egyptian currency that occurred in 2003, which sharply reduced the profitability of pharmaceutical companies, most of which rely heavily on imported inputs. Similarly, since mid-2004, Egypt's Ministry of Health and Population has undermined its data exclusivity obligations by granting marketing approval to Egyptian generic pharmaceuticals that rely upon undisclosed clinical data. As a result, in 2004

and 2005, Egypt was placed on the Priority Watch List under Special 301. In December 2005, the outgoing Minister of Health and Population gave approval to an Egyptian company to market Olapex, a copy of Eli Lilly's drug Zyprexa. Olapex is the first marketing approval for a generic copy of a protected U.S. company product in more than a year. This came despite repeated warnings from U.S. Government officials. During your meeting with the Minister of Health and Population, you should urge him to withdraw the approval for Olapex and all those drugs that infringe on patents of U.S. companies.

14. (SBU) Your visit will be the latest in a series of visits by high-level USG officials. Vice President Cheney was in Cairo January 16-17, 2006 and Secretary of State Rice was here February 21-22. They both used their visits to press the President's vision of promoting democracy in the Middle East. They both recognized the steps that Egypt has recently taken to broaden political participation including historic multiparty presidential elections. They also noted missteps, such as the flawed parliamentary elections, and the imprisonment of the leading opposition figure Ayman Nour. Your government interlocutors will welcome your visit as an opportunity to highlight the less contentious commercial/economic side of our bilateral relationship.

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